

Reporter

*A Newsletter for Employers**Fall 1996*

Costly Errors and How to Avoid Them

You can reduce administrative and processing costs, make sure employees' wages are posted to their earnings records, and avoid IRS penalties when you make sure your Forms W-2/W-3 are correctly submitted to SSA. With the filing season just around the corner, it's a good idea to review the following list of frequent errors and how to avoid them:

✓ **Nonstandard W-2/W-3 Forms**

Make sure the forms you use meet the specifications found in IRS' Publication 1141. When you purchase Forms W-2/W-3 from sources other than IRS, they may not meet IRS' specifications for paper weight, paper size, red drop-out ink, and so on.

✓ **Incorrect EIN**

Watch for transposing digits, entering a Social Security number (SSN) instead of an employer identification number (EIN), or entering an incomplete EIN. Always double check the EIN listed on your W-2/W-3 against your Form 941 to make sure you recorded it correctly.

✓ **Incorrect SSN**

Watch for transposing digits, entering the EIN instead of the SSN, or entering an incomplete SSN. Each October, ask your employees to verify/update their name, SSN, address and withholding allowances recorded in your payroll records and make appropriate corrections.

✓ **Incorrectly Listing Employee Names**

Watch for nicknames instead of proper first names and don't use titles. Recording the name incorrectly, or entering titles/suffixes such as Mr., Dr., Sr., Jr., PhD, etc., makes it difficult for SSA's computer software to determine the actual name. Also, do not update your payroll records for a name change until the employee has a new Social Security card. Then change the payroll records to match the name exactly as it appears on the new card.

✓ **Incorrectly Entering Dollar Amounts**

Watch for missing decimal points. Don't use dollar signs or commas. You must use the decimal point and show the entire money amount. For even dollar amounts, show cents as ".00."

✓ **Incorrectly Calculating Social Security Wages**

Watch for wages that exceed the maximum Social Security wage base limit. A new wage base limit is announced each October for the subsequent tax year and can be found in IRS' Circular E or by contacting your local Social Security office. (Note: There is no limit on wages taxable for Medicare.) — SSA

Tax Year 1995 SSA/IRS Wage Reporting Reconciliation

The SSA reconciliation process makes sure proper wages are credited to the right employees' earnings records. This process identifies situations where SSA has received less in wages (on Forms W-2 or magnetic media equivalent) than were reported to IRS on Forms 941/943 for regular/agricultural employees or on Schedule H (Form 1040) for household employees.

SSA will begin its part of the Tax Year (TY) 1995 SSA/IRS reconciliation process in November 1996. At that time, employers who usually file a single wage report and who have reported less wages (FICA, Medicare or both) to SSA than to the IRS will be contacted by letter to reconcile their wage data. The majority of TY 1995 reconciliation notices will be mailed to employers in late February 1997. At that time, SSA will begin contacting all employers who reported wages to IRS, but for whom SSA has processed either less wages, or no wages at all.

IRS' reconciliation process will begin later in 1997 for TY 1995. This process identifies situations in which less taxes have been received by the IRS than would have been indicated by the amount of wages reported to SSA on Forms W-2. The two agencies coordinate their processes and SSA refers situations where employers did not respond to SSA's notices to IRS for possible penalty action. — SSA

For More Info, Check the Internet

SSA — <http://www.ssa.gov>

IRS — <http://www.irs.ustreas.gov>

U.S. Business Advisor — <http://www.business.gov>

Empowerment Zones Offer Tax Incentives

There are a number of tax advantages to businesses that establish themselves or operate in Empowerment Zones (EZs). These zones, located in six urban and three rural areas, were created to encourage businesses to set up shop in economically distressed areas. Businesses that take advantage of EZ incentives not only reap the benefits of significant tax incentives, they also help to revitalize a community.

Qualified businesses in an Empowerment Zone can be eligible for three tax incentives. First, the Employer Wage Credit allows employers to claim a 20% credit on as much as the first \$15,000 of qualified wages of each qualified employee. This credit encourages employers to hire people who live within the zone. Next, there may be an increase in the amount of the Section 179 deduction. The Section 179 deduction allows employers to elect an immediate one-time deduction for all or part of the basis of certain business property they purchase that would otherwise be depreciated over a number of years. Normally, this deduction is limited to \$17,500. For eligible businesses in an EZ, the amount of the deduction may be as much as \$37,500. And for

both EZs and the more numerous Enterprise Communities, special tax-exempt bond financing is available. These bonds have lower interest rates than conventional financing.

To find out more about Empowerment Zones, and whether your business qualifies, order IRS Publication 954, "Tax Incentives for Empowerment Zones and Enterprise Communities" by dialing 1-800-829-3676. You may call the Department of Housing and Urban Development at 1-800-998-9999 for information on the six urban EZ sites, or the Department of Agriculture at 1-800-645-4712 about the rural EZs. On the Internet's World Wide Web, you can find the EZ/EC Home Page at: <http://www.ezec.gov>. In addition, many Empowerment Zone communities have set up their own web sites on the Internet. These are great places to discuss EZ issues or to get more information.

Empowerment Zones are located in Atlanta, GA; Baltimore, MD; Philadelphia, PA/Camden, NJ; Chicago, IL; Detroit, MI; New York, NY; Kentucky, Highlands, KY (counties of Clinton, Jackson and Wayne); Mid Delta, MS (counties of Bolivar, Sunflower, Leflore, Washington, Humphreys and Holmes); and Rio Grande Valley, TX (counties of Starr, Cameron, Hidalgo and Willacy). — IRS

Advance Earned Income Tax Credit

On the following pages, you will find a copy of the 1996 Form W-5, "Earned Income Credit Advance Payment Certificate." Through the Advance Earned Income Tax Credit (AEITC), you can give your workers as much as \$107 per month extra in their paychecks.

If you have employees who may earn less than \$25,078 during 1996 and have at least one child living with them in the U.S., they may be able to receive up to 60% of their credit in their paychecks. Your employees can get any additional credit due to them when they file their income tax returns.

Details on how to provide AEITC to your employees are in Publication 15, *Circular E, Employer's Tax Guide*. To order the following free information materials, call 1-800-829-3676.

- ✓ 11"x 14" Poster, Publication 1759 (1759-SP in Spanish)
- ✓ Paycheck stuffer, Publication 1762 (1762-SP)
- ✓ Employee Brochure, Publication 1235 (1235-SP)
- ✓ Employer Brochure, Publication 1844
- ✓ Form W-5

If you prefer to get forms through your computer, you may download Form W-5 through the Internet. The Internet address is <http://www.irs.ustreas.gov>. — IRS

Second Reminder: Electronic Federal Tax Payments Coming Soon

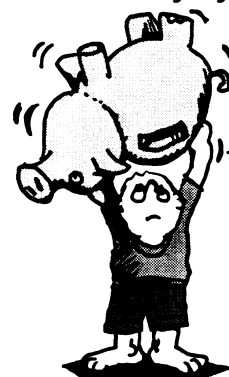
If you are one of the more than one million employers who will be required to make tax payments through the Electronic Federal Tax Payment System (EFTPS), enroll now.

Even though the first electronic funds transfer (EFT) payment is not required until January 1997, the enrollment and acceptance process can take up to ten weeks to complete. That means that if your form is received after November 1, 1996, you may not be enrolled in time

to make the first EFT payment. However, the IRS will not assess any penalties until after June 30, 1997, while employers become familiar with EFTPS and set up their procedures to use the new system.

If you have not received your enrollment package, call 1-800-945-8400 if you are in the upper portion of the U.S. or 1-800-555-4477 if you are in the lower part of the U.S. (See map in Summer 1996 SSA/IRS Reporter.) — IRS

Do Your Employees Need Help Between Paydays?



Check Out Advance EITC!

1996 Form W-5

Department of the Treasury
Internal Revenue Service

Instructions

A Change To Note

If you expect your 1996 investment income to be more than \$2,350, you **cannot** claim the earned income credit (EIC) for 1996. As used on this form, **investment income** includes taxable interest and dividends and tax-exempt interest. It also includes rental and royalty income after subtracting the total deductible related expenses. But rents and royalties received in a trade or business are not investment income.

Caution: At the time these instructions were printed, Congress was considering legislation that would change the EIC rules for 1996. If this legislation results in changes to the advance EIC rules, the IRS will issue a revised 1996 Form W-5. For information on the changes, get **Pub. 593, Highlights of 1995 Tax Changes**. You can get it by calling 1-800-TAX-FORM (1-800-829-3676).

Purpose

Use Form W-5 if you are eligible to get part of the EIC in advance with your pay and choose to do so. The amount you can get in advance generally depends on your wages. If you are married, the amount of your advance EIC payments also depends on whether your spouse has filed a Form W-5 with his or her employer. However, your employer cannot give you more than \$1,291 throughout 1996 with your pay.

If you do not choose to get advance payments, you can still claim the EIC on your 1996 tax return.

What Is the EIC?

The EIC is a credit for certain workers. It reduces tax you owe. It may give you a refund even if you don't owe any tax. For 1996, the EIC can be as much as \$2,152 if you have one qualifying child; \$3,556 if you

have more than one qualifying child; \$323 if you don't have a qualifying child. But you **cannot** get advance EIC payments unless you have a qualifying child. See **Who Is a Qualifying Child?** on this page.

Who Is Eligible To Get Advance EIC Payments?

You are eligible to get advance EIC payments if **all three** of the following apply.

1. You have at least one qualifying child.
2. You expect that your 1996 earned income and adjusted gross income will each be less than \$25,078. Include your spouse's income if you plan to file a joint return. As used on this form, earned income does not include amounts inmates in penal institutions are paid for their work.
3. You expect to be able to claim the EIC for 1996. To find out if you may be able to claim the EIC, answer the questions on page 2.

How Do I Get Advance EIC Payments?

If you are eligible to get advance EIC payments, fill in the Form W-5 at the bottom of this page. Then, detach it and give it to your employer. If you get advance payments, you **must** file a 1996 Federal income tax return.

You may have only **one** Form W-5 in effect with a current employer at one time. If you and your spouse are both employed, you should file separate Forms W-5.

This Form W-5 expires on December 31, 1996. If you are eligible to get advance EIC payments for 1997, you **must** file a new Form W-5 next year.

TIP You may be able to get a larger credit when you file your 1996 return. For details, see **Additional Credit** on page 2.

Who Is a Qualifying Child?

Any child who meets **all three** of the following conditions is a **qualifying child**.

1. The child is your son, daughter, adopted child, stepchild, foster child, or a descendant (for example, your grandchild) of your son, daughter, or adopted child.

Note: An **adopted child** includes a child placed with you by an authorized placement agency for legal adoption even if the adoption isn't final. A **foster child** is any child you cared for as your own child.

2. The child is under age 19 at the end of 1996, or under age 24 at the end of 1996 and a full-time student, or any age at the end of 1996 and permanently and totally disabled.

3. The child lives with you in the United States for over half of 1996 (for all of 1996 if a foster child). If the child does not live with you for the required time because the child was born or died in 1996, the child is considered to have lived with you for all of 1996 if your home was the child's home for the entire time he or she was alive in 1996.

Note: Temporary absences such as for school, medical care, or vacation count as time lived at home. Members of the military on extended active duty outside the United States are considered to be living in the United States.

Married child.—If the child is married at the end of 1996, that child is a qualifying child only if you may claim him or her as your dependent, **or** the following **Exception** applies to you.

Exception. You are the custodial parent and would be able to claim the child as your dependent, but the noncustodial parent claims the child as a dependent because—

1. You signed **Form 8332, Release of Claim to Exemption for Child of Divorced**

(Continued on page 2)

✂ Give the lower part to your employer; keep the top part for your records. ✂

..... Detach here

Form W-5 Department of the Treasury Internal Revenue Service	Earned Income Credit Advance Payment Certificate © Give this certificate to your employer. © This certificate expires on December 31, 1996.	OMB No. 1545-1342 <div style="font-size: 2em; font-weight: bold;">1996</div>									
Type or print your full name		Your social security number									
Note: If you get advance payments of the earned income credit for 1996, you must file a 1996 Federal income tax return. To get advance payments, you must have a qualifying child and your filing status must be any status except married filing a separate return.											
<ol style="list-style-type: none"> 1 I expect to be able to claim the earned income credit for 1996, I do not have another Form W-5 in effect with any other current employer, and I choose to get advance EIC payments. 2 Do you have a qualifying child? 3 Are you married? 4 If you are married, does your spouse have a Form W-5 in effect for 1996 with any employer? 	<table border="1"> <thead> <tr> <th>Yes</th> <th>No</th> </tr> </thead> <tbody> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> <tr><td></td><td></td></tr> </tbody> </table>	Yes	No								
Yes	No										
Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.											
Signature ©	Date ©										

Form W-5 (1996)

Page 2

Questions To See if You May Be Able To Claim the EIC for 1996

Caution: You **cannot** claim the EIC if you plan to file either **Form 2555** or **Form 2555-EZ** (relating to foreign earned income) for 1996. You also **cannot** claim the EIC if you are a nonresident alien for any part of 1996 unless you are married to a U.S. citizen or resident and elect to be taxed as a resident alien for all of 1996.

- 1** Do you have a qualifying child? Read **Who Is a Qualifying Child?** on page 1 before you answer this question. If the child is married, be sure you also read **Married child** on page 1.

- ☐ **No. Stop.** You may be able to claim the EIC but you **cannot** get advance EIC payments.
☐ **Yes.** Go to question 2.

Caution: If the child is a qualifying child for both you and another person, the child is your qualifying child only if you expect your 1996 adjusted gross income to be **higher** than the other person's adjusted gross income. If the other person is your spouse and you expect to file a joint return for 1996, this rule doesn't apply.

- 2** Do you expect your 1996 filing status to be Married filing a separate return?

- ☐ **Yes. Stop.** You **cannot** claim the EIC.
☐ **No.** Go to question 3.

(TP) If you expect to file a joint return for 1996, include your spouse's income when answering questions 3 and 4.

- 3** Do you expect that your 1996 earned income and adjusted gross income will each be less than \$25,078 (less than \$28,495 if you have more than one qualifying child)? To find out what is included in adjusted gross income, you can look at page 1 of your 1996 tax return (Form 1040EZ, Form 1040A, etc.).

- ☐ **No. Stop.** You **cannot** claim the EIC.
☐ **Yes.** Go to question 4. But remember, you **cannot** get advance EIC payments if you think your 1996 earned income or adjusted gross income will be \$25,078 or more.

- 4** Do you expect that your 1996 investment income (defined on page 1) will be more than \$2,350?

- ☐ **Yes. Stop.** You **cannot** claim the EIC.
☐ **No.** Go to question 5.

- 5** Do you expect to be a qualifying child of another person for 1996?

- ☐ **No.** You may be able to claim the EIC.
☐ **Yes.** You **cannot** claim the EIC.

or Separated Parents, or a similar statement, agreeing not to claim the child for 1996, **or**

2. You have a pre-1996 divorce decree or separation agreement that allows the noncustodial parent to claim the child and he or she gives at least \$600 for the child's support in 1996.

Qualifying child of more than one person.—If the child is a qualifying child of more than one person, only the person with the **highest** adjusted gross income for 1996 may treat that child as a qualifying child. If the other person is your spouse and you plan to file a joint return for 1996, this rule doesn't apply.

Reminder.—You must get a social security number for a qualifying child unless the child was born after November 30, 1996.

What If My Situation Changes?

If your situation changes after you give Form W-5 to your employer, you will probably need to file a new Form W-5. For example, you should file a new Form W-5 if any of the following applies for 1996.

c. You no longer have a qualifying child. Check "**No**" on line 2 of your new Form W-5.

c. You no longer expect to be able to claim the EIC for 1996. Check "**No**" on line 1 of your new Form W-5.

c. You no longer want advance payments. Check "**No**" on line 1 of your new Form W-5.

c. Your spouse files Form W-5 with his or her employer. Check "**Yes**" on line 4 of your new Form W-5.

Note: If you get the EIC with your pay and find you are not eligible, you must pay it back when you file your 1996 Federal income tax return.

Additional Information

How To Claim the EIC

If you are eligible, claim the EIC on your 1996 tax return. See your 1996 instruction booklet.

Additional Credit

You may be able to claim a larger credit when you file your 1996 tax return because your employer cannot give you more than \$1,291 of the EIC throughout the year with your pay. You may also be able to claim a larger credit if you have more than one qualifying child. But you must file your 1996 tax return to claim any additional credit.

Privacy Act and Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. Internal Revenue Code sections 3507 and 6109 and their regulations require you to provide the information requested on Form W-5 and give the form to your employer if you want advance payment of the EIC. As provided by law, we may give the information to the Department of Justice and other Federal agencies. In addition, we may give it to cities, states, and the District of Columbia so they may carry out their tax laws.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is: **Recordkeeping**, 7 min.; **Learning about the law or the form**, 9 min.; and **Preparing the form**, 27 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. **DO NOT** send the form to this address. Instead, give it to your employer.

